

1 LERACH COUGHLIN STOIA GELLER
 2 RUDMAN & ROBBINS LLP
 3 SHAWN A. WILLIAMS (213113)
 100 Pine Street, Suite 2600
 3 San Francisco, CA 94111
 Telephone: 415/288-4545
 4 415/288-4534 (fax)
 shawnw@lerachlaw.com

5 – and –

6 WILLIAM S. LERACH (68581)
 7 DARREN J. ROBBINS (168593)
 TRAVIS E. DOWNS III (148274)
 655 West Broadway, Suite 1900
 San Diego, CA 92101
 Telephone: 619/231-1058
 619/231-7423 (fax)
 9 billl@lerachlaw.com
 darrenr@lerachlaw.com
 10 travisd@lerachlaw.com

11 Attorneys for Plaintiff

12 UNITED STATES DISTRICT COURT
 13 NORTHERN DISTRICT OF CALIFORNIA

14 SAN JOSE DIVISION

15 JOHN J. RANIERI, Derivatively on Behalf of No. **C 06 6906**
 16 SIGMA DESIGNS, INC.,)

17 Plaintiff,)

18 vs.)

19 THINH Q. TRAN, SILVIO PERICH, KIT
 TSUI, KENNETH A. LOWE, JACQUES
 20 MARTINELLA, WILLIAM J. ALMON,
 JULIEN NGUYEN and LUNG C. TSAI,)

21 Defendants,)

22 – and –)

23 SIGMA DESIGNS, INC., a California
 corporation,)

24 Nominal Defendant.)

25 DEMAND FOR JURY TRIAL

Original

VERIFIED SHAREHOLDER DERIVATIVE
 COMPLAINT FOR VIOLATION OF THE
 FEDERAL SECURITIES LAWS AND
 STATE LAW CLAIMS FOR BREACH OF
 FIDUCIARY DUTY, ABUSE OF
 CONTROL, CONSTRUCTIVE FRAUD,
 CORPORATE WASTE, UNJUST
 ENRICHMENT, GROSS
 MISMANAGEMENT, ACTION FOR
 ACCOUNTING AND VIOLATIONS OF
 CALIFORNIA CORPORATIONS CODE

E-Filing

HRL

1 Bju

NATURE OF THE ACTION

1
2 1. This is a shareholder derivative action brought by a shareholder of Sigma Designs,
3 Inc. ("Sigma Designs" or the "Company") on behalf of the Company against its Board of Directors
4 and certain of its senior executives (collectively, "Defendants"). This action seeks to remedy
5 Defendants' violations of federal and state law, including breaches of fiduciary duty, abuse of
6 control, constructive fraud, corporate waste, unjust enrichment and gross mismanagement, arising
7 out of a scheme and wrongful course of business whereby Defendants allowed senior Sigma Designs
8 insiders to divert hundreds of millions of dollars of corporate assets to themselves via the
9 manipulation of grant dates associated with hundreds of thousands of stock options granted to Sigma
10 Designs insiders. Each of the Defendants also participated in the concealment of the backdating
11 option scheme complained of herein and/or refused to take advantage of the Company's legal rights
12 to require these senior insiders to disgorge the hundreds of millions in illicitly obtained incentive
13 compensation and proceeds diverted to them since 1997.

14 2. Between fiscal 1997 and 2005, Defendants also caused Sigma Designs to file false
15 and misleading statements with the Securities and Exchange Commission ("SEC"), including Proxy
16 Statements filed with the SEC which stated that the options granted by Sigma Designs carried with
17 them an exercise price that was *not less than* the fair market value of Sigma Designs stock on the
18 date of grant and issuance.

19 3. In fact, Defendants were aware that the practices employed by the Board allowed the
20 stock option grants to be *backdated* to dates when the Company's shares were trading at or near the
21 lowest price for that relevant period. By July 2006, Defendants' backdating scheme had yielded
22 stock option grants to the Company's executive officers worth millions of dollars, which contributed
23 to Defendants' ability to sell over \$15.4 million worth of Sigma Designs stock.

24 4. Sigma Designs' financial results as reported and filed with the SEC were false.
25 Defendants' misrepresentations and wrongful course of conduct violated the Securities Exchange
26 Act of 1934 (the "Exchange Act"), as well as California law. By authorizing and/or acquiescing in
27 the stock option backdating scheme, Defendants: (i) caused Sigma Designs to issue false statements;
28 (ii) diverted hundreds of millions of dollars of corporate assets to senior Sigma Designs executives;

1 and (iii) subjected Sigma Designs to potential liability from regulators, including the SEC and the
2 IRS.

3 5. Defendants' gross mismanagement and malfeasance over the past decade has exposed
4 Sigma Designs and its senior executives to criminal and civil liability for issuing false and
5 misleading financial statements. Specifically, Defendants caused or allowed Sigma Designs to issue
6 statements that failed to disclose or misstated the following: (i) that the Company had problems with
7 its internal controls that prevented it from issuing accurate financial reports and projections; (ii) that
8 because of improperly recorded stock-based compensation expenses, the Company's financial results
9 violated Generally Accepted Accounting Principles ("GAAP"); and (iii) that the Company's public
10 disclosures presented an inflated view of Sigma Designs' earnings and earnings per share.

11 6. Defendants' malfeasance and mismanagement during the relevant period has wreaked
12 hundreds of millions of dollars of damages on Sigma Designs. The Company's senior executives
13 were incentivized to over-pay themselves, to profit from their misconduct by cashing in on under-
14 priced stock options and to issue false financial statements to cover up their misdeeds. Defendants'
15 breaches of fiduciary duties in the administration of the Company's stock option plans so polluted
16 the plans with grant date manipulations so as to void all grants made pursuant to the plans. The
17 Company has now been mentioned as one of several companies likely to have manipulated options.
18 Meanwhile, certain of the Defendants and former officers, who received under-priced stock options
19 and/or knew material non-public information regarding Sigma Designs' internal control problems,
20 abused their fiduciary relationship with the Company by selling over \$15.4 million worth of their
21 personally held shares at artificially inflated prices during the relevant period. This action seeks
22 recovery for Sigma Designs against these faithless fiduciaries, as Sigma Designs' Board of
23 Directors, as currently composed, is simply unable or unwilling to do so.

24 INTRADISTRICT ASSIGNMENT

25 7. A substantial part of the events or omissions which give rise to the claims in this
26 action occurred in the county of Santa Clara and as such this action is properly assigned to the San
27 Jose division of this Court.
28

JURISDICTION AND VENUE

8. The claims asserted herein arise under §14(a) of the Exchange Act, 15 U.S.C. §78n(a), and under California law for breach of fiduciary duty, abuse of control, constructive fraud, corporate waste, unjust enrichment and gross mismanagement. In connection with the acts, conduct and other wrongs complained of herein, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, the United States mail and the facilities of a national securities market.

9. This Court has subject matter jurisdiction pursuant to §27 of the Exchange Act, 15 U.S.C. §78aa, as well as 28 U.S.C. §1331. This Court also has supplemental jurisdiction over the state law claims asserted herein pursuant to 28 U.S.C. §1367.

10. This action is not a collusive one to confer jurisdiction on a court of the United States which it would not otherwise have.

11. Venue is proper in this district pursuant to §27 of the Exchange Act, 15 U.S.C. §78aa, as well as 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District. Sigma Designs is located in and conducts its business in this District. Further, Defendants conduct business in this District, and certain of the Defendants are citizens of California and reside in this District.

PARTIES

12. Plaintiff John J. Ranieri is, and at all relevant times was, a shareholder of nominal defendant Sigma Designs.

13. Nominal party Sigma Designs is a California corporation with its principal executive offices located at 1221 California Circle, Milpitas, California.

14. Defendant Thinh Q. Tran ("Tran") has served as Chairman of the Board of Directors, President and Chief Executive Officer ("CEO") of Sigma Designs since 1982. Because of Tran's positions, he knew the adverse non-public information about the business of Sigma Designs, as well as its finances, markets and present and future business prospects, via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance

1 at management and Board meetings and committees thereof and via reports and other information
2 provided to him in connection therewith. During the relevant period, Tran participated in the
3 issuance of false and/or misleading statements, including the preparation of the false and/or
4 misleading press releases and SEC filings. Based on his knowledge of material non-public
5 information regarding the Company, defendant Tran violated Cal. Corp. Code §§25402 and 25502.5
6 by selling 582,797 shares of Sigma Designs stock for proceeds of \$6.1 million during the relevant
7 period.

8 15. Defendant Silvio Perich ("Perich") has served as Senior Vice President, Worldwide
9 Sales since January 1992. Previously, Perich served in a variety of senior executive positions since
10 joining the Company in 1985. Because of Perich's positions, he knew the adverse non-public
11 information about the business of Sigma Designs, as well as its finances, markets and present and
12 future business prospects, via access to internal corporate documents, conversations and connections
13 with other corporate officers and employees, attendance at management meetings and via reports and
14 other information provided to him in connection therewith. During the relevant period, Perich
15 participated in the issuance of false and/or misleading statements, including the preparation of the
16 false and/or misleading press releases and SEC filings. Based on his knowledge of material non-
17 public information regarding the Company, defendant Perich violated Cal. Corp. Code §§25402 and
18 25502.5 by selling 230,000 shares of Sigma Designs stock for proceeds of \$2.6 million during the
19 relevant period.

20 16. Defendant Kit Tsui ("Tsui") has been Chief Financial Officer ("CFO") of Sigma
21 Designs since 2001, and has been employed at Sigma Designs in accounting positions since 1982.
22 Because of Tsui's positions, she knew the adverse non-public information about the business of
23 Sigma Designs, as well as its finances, markets and present and future business prospects, via access
24 to internal corporate documents, conversations and connections with other corporate officers and
25 employees, attendance at management meetings and via reports and other information provided to
26 her in connection therewith. During the relevant period, Tsui participated in the issuance of false
27 and/or misleading statements, including the preparation of the false and/or misleading press releases
28 and SEC filings.

1 17. Defendant Kenneth A. Lowe ("Lowe") has been Vice President, Business
2 Development and Strategic Marketing of Sigma Designs since 2001. Because of Lowe's position,
3 he knew the adverse non-public information about the business of Sigma Designs, as well as its
4 finances, markets and present and future business prospects, via access to internal corporate
5 documents, conversations and connections with other corporate officers and employees, attendance
6 at management meetings and via reports and other information provided to him in connection
7 therewith. During the relevant period, Lowe participated in the issuance of false and/or misleading
8 statements, including the preparation of the false and/or misleading press releases and SEC filings.
9 Based on his knowledge of material non-public information regarding the Company, defendant
10 Lowe violated Cal. Corp. Code §§25402 and 25502.5 by selling 6,000 shares of Sigma Designs
11 stock for proceeds of \$64,893 during the relevant period.

12 18. Defendant Jacques Martinella ("Martinella") has been a Vice President of
13 Engineering of Sigma Designs since 1995. Because of Martinella's position, he knew the adverse
14 non-public information about the business of Sigma Designs, as well as its finances, markets and
15 present and future business prospects, via access to internal corporate documents, conversations and
16 connections with other corporate officers and employees, attendance at management meetings and
17 via reports and other information provided to him in connection therewith. During the relevant
18 period, Martinella participated in the issuance of false and/or misleading statements, including the
19 preparation of the false and/or misleading press releases and SEC filings. Based on his knowledge
20 of material non-public information regarding the Company, defendant Martinella violated Cal. Corp.
21 Code §§25402 and 25502.5 by selling 88,666 shares of Sigma Designs stock for proceeds of
22 \$947,641 during the relevant period.

23 19. Defendant William J. Almon ("Almon") has been a director of Sigma Designs since
24 1994. Because of Almon's position, he knew the adverse non-public information about the business
25 of Sigma Designs, as well as its finances, markets and present and future business prospects, via
26 access to internal corporate documents, conversations and connections with other corporate officers
27 and employees, attendance at Board meetings and committees thereof and via reports and other
28 information provided to him in connection therewith. During the relevant period, Almon

1 participated in the issuance of false and/or misleading statements, including the preparation of the
2 false and/or misleading press releases and SEC filings. Based on his knowledge of material non-
3 public information regarding the Company, defendant Almon violated Cal. Corp. Code §§25402 and
4 25502.5 by selling 83,000 shares of Sigma Designs stock for proceeds of \$1.09 million during the
5 relevant period.

6 20. Defendant Julien Nguyen ("Nguyen") has been a director of Sigma Designs since
7 2000. Because of Nguyen's position, he knew the adverse non-public information about the
8 business of Sigma Designs, as well as its finances, markets and present and future business
9 prospects, via access to internal corporate documents, conversations and connections with other
10 corporate officers and employees, attendance at Board meetings and committees thereof and via
11 reports and other information provided to him in connection therewith. During the relevant period,
12 Nguyen participated in the issuance of false and/or misleading statements, including the preparation
13 of the false and/or misleading press releases and SEC filings. Based on his knowledge of material
14 non-public information regarding the Company, defendant Nguyen violated Cal. Corp. Code
15 §§25402 and 25502.5 by selling 560,625 shares of Sigma Designs stock for proceeds of \$4.4 million
16 during the relevant period.

17 21. Defendant Lung C. Tsai ("Tsai") has been a director of Sigma Designs since 2003.
18 Because of Tsai's position, he knew the adverse non-public information about the business of Sigma
19 Designs, as well as its finances, markets and present and future business prospects, via access to
20 internal corporate documents, conversations and connections with other corporate officers and
21 employees, attendance at Board meetings and committees thereof and via reports and other
22 information provided to him in connection therewith. During the relevant period, Tsai participated
23 in the issuance of false and/or misleading statements, including the preparation of the false and/or
24 misleading press releases and SEC filings. Based on his knowledge of material non-public
25 information regarding the Company, defendant Tsai violated Cal. Corp. Code §§25402 and 25502.5
26 by selling 15,000 shares of Sigma Designs stock for proceeds of \$157,700 during the relevant
27 period.

28

22. The defendants identified in ¶¶14 and 19-21 are referred to herein as the "Director Defendants." The defendants identified in ¶¶14-18 are referred to herein as the "Officer Defendants." The defendants identified in ¶¶14-15 and 17-21 are referred to herein as the "Insider Selling Defendants."

DEFENDANTS' DUTIES

23. Each officer and director of Sigma Designs named herein owed the Company and Sigma Designs shareholders the duty to exercise a high degree of care, loyalty and diligence in the management and administration of the affairs of the Company, as well as in the use and preservation of its property and assets. The conduct of Sigma Designs' directors and officers complained of herein involves knowing, intentional and culpable violations of their obligations as officers and directors of Sigma Designs. Further, the misconduct of Sigma Designs' officers has been ratified by Sigma Designs' Board, which has failed to take any legal action on behalf of the Company against them.

24. By reason of their positions as officers, directors and fiduciaries of Sigma Designs and because of their ability to control the business and corporate affairs of the Company, the Defendants owed Sigma Designs and its shareholders fiduciary obligations of candor, trust, loyalty and care, and were required to use their ability to control and manage Sigma Designs in a fair, just, honest and equitable manner, and to act in furtherance of the best interests of Sigma Designs and its shareholders so as to benefit all shareholders equally and not in furtherance of their personal interest or benefit. In addition, as officers and/or directors of a publicly held company, the Defendants had a duty to refrain from utilizing their control over Sigma Designs to divert assets to themselves via improper and/or unlawful practices. Defendants also had a duty to promptly disseminate accurate and truthful information with respect to the Company's operations, earnings and compensation practices.

25. Because of their positions of control and authority as directors or officers of Sigma Designs, each of the Defendants was able to and did, directly and indirectly, control the wrongful acts complained of herein. As to the Director Defendants, these acts include: (i) agreement to and/or acquiescence in Defendants' option backdating scheme; (ii) willingness to cause Sigma Designs to

1 disseminate false Proxy Statements for 1997-2005, which Proxy Statements failed to disclose
2 Defendants' option backdating scheme and omitted the fact that executive officers were allowed to
3 backdate their stock option grants in order to manipulate the strike price of the stock options they
4 received. Because of their positions with Sigma Designs, each of the Defendants was aware of these
5 wrongful acts, had access to adverse non-public information and was required to disclose these facts
6 promptly and accurately to Sigma Designs shareholders and the financial markets but failed to do so.

7 26. Between 1997 and 2005, Defendants repeated in each Proxy Statement that the stock
8 option grants made during that period carried an exercise price that was not less than the fair market
9 value of Sigma Designs stock on the date granted, as calculated by the public trading price of the
10 stock at the market's close on that date. However, Defendants concealed until July 2006 that the
11 stock option grants were repeatedly and consciously *backdated* to ensure that the strike price
12 associated with the option grants was at or near the lowest trading price for that fiscal period. Due to
13 Defendants' breach of their fiduciary duty in the administration of the stock option plans, plaintiff
14 seeks to have the directors' and officers' plans voided and gains from those plans returned to the
15 Company. In the alternative, plaintiff seeks to have all of the unexercised options granted to
16 Defendants between 1997 and 2004 cancelled, the financial gains obtained via the exercise of such
17 options returned to the Company and to have Defendants revise the Company's financial statements
18 to reflect the truth concerning these option grants.

19 27. To discharge their duties, the directors of Sigma Designs were required to exercise
20 reasonable and prudent supervision over the management, policies, practices and controls of the
21 business and financial affairs of Sigma Designs. By virtue of such duties, the officers and directors
22 of Sigma Designs were required, among other things, to:

23 (a) manage, conduct, supervise and direct the business affairs of Sigma Designs
24 in accordance with all applicable law (including federal and state laws, government rules and
25 regulations and the charter and bylaws of Sigma Designs);

26 (b) neither engage in self-dealing nor knowingly permit any officer, director or
27 employee of Sigma Designs to engage in self-dealing;

1 (c) neither violate nor knowingly permit any officer, director or employee of
2 Sigma Designs to violate applicable laws, rules and regulations;

3 (d) remain informed as to the status of Sigma Designs' operations, including its
4 practices in relation to the cost of allowing the pervasive backdating and improperly accounting for
5 such, and upon receipt of notice or information of imprudent or unsound practices, to make a
6 reasonable inquiry in connection therewith, and to take steps to correct such conditions or practices
7 and make such disclosures as are necessary to comply with the U.S. federal securities laws and their
8 duty of candor to the Company's shareholders;

9 (e) prudently protect the Company's assets, including taking all necessary steps to
10 recover corporate assets (cash, stock options) improperly paid to Company executives and directors
11 together with the related costs (professional fees) proximately caused by the illegal conduct
12 described herein;

13 (f) establish and maintain systematic and accurate records and reports of the
14 business and affairs of Sigma Designs and procedures for the reporting of the business and affairs to
15 the Board of Directors and to periodically investigate, or cause independent investigation to be made
16 of, said reports and records;

17 (g) maintain and implement an adequate, functioning system of internal legal,
18 financial and accounting controls, such that Sigma Designs' financial statements – including its
19 expenses, accounting for stock option grants and other financial information – would be accurate and
20 the actions of its directors would be in accordance with all applicable laws;

21 (h) exercise control and supervision over the public statements to the securities
22 markets and trading in Sigma Designs stock by the officers and employees of Sigma Designs; and

23 (i) supervise the preparation and filing of any financial reports or other
24 information required by law from Sigma Designs and to examine and evaluate any reports of
25 examinations, audits or other financial information concerning the financial affairs of Sigma Designs
26 and to make full and accurate disclosure of all material facts concerning, *inter alia*, each of the
27 subjects and duties set forth above.

28

1 28. Each Defendant, by virtue of his or her position as a director and/or officer, owed to
2 the Company and to its shareholders the fiduciary duties of loyalty, good faith and the exercise of
3 due care and diligence in the management and administration of the affairs of the Company, as well
4 as in the use and preservation of its property and assets. The conduct of the Defendants complained
5 of herein involves a knowing and culpable violation of their obligations as directors of Sigma
6 Designs, the absence of good faith on their part, and a reckless disregard for their duties to the
7 Company and its shareholders which Defendants were aware or should have been aware posed a risk
8 of serious injury to the Company. The conduct of the Defendants who were also officers and/or
9 directors of the Company during the relevant period has been ratified by the Director Defendants
10 who comprised Sigma Designs' entire Board during the relevant period.

11 29. Defendants breached their duties of loyalty and good faith by allowing or by
12 themselves causing the Company to misrepresent its financial results and prospects, as detailed
13 herein *infra*, and by failing to prevent the Defendants from taking such illegal actions. In addition,
14 as a result of Defendants' illegal actions and course of conduct during the relevant period, the
15 Company is now the subject of an investigation by the SEC. As a result, Sigma Designs has
16 expended and will continue to expend significant sums of money. Such expenditures include, but
17 are not limited to:

- 18 (a) improvidently paid executive compensation;
- 19 (b) increased capital costs as a result of the loss of market capitalization and the
20 Company's damaged reputation in the investment community;
- 21 (c) professional costs associated with defending against class action lawsuits filed
22 against the Company;
- 23 (d) costs incurred to carry out internal investigations and to prepare and file
24 restated financial statements, including legal fees paid to outside counsel; and
- 25 (e) incurring possible IRS penalties for improperly reporting compensation.

26 30. These actions have irreparably damaged Sigma Designs' corporate image and
27 goodwill. For at least the foreseeable future, Sigma Designs will suffer from what is known as the
28 "liar's discount," a term applied to the stocks of companies who have been implicated in illegal

1 behavior and have misled the investing public, such that Sigma Designs' ability to raise equity
2 capital or debt on favorable terms in the future is now impaired.

3 **AIDING AND ABETTING AND CONCERTED ACTION**

4 31. In committing the wrongful acts alleged herein, Defendants have pursued or joined in
5 the pursuit of a common course of conduct and acted in concert with one another in furtherance of
6 their common plan.

7 32. During all times relevant hereto, Defendants collectively and individually initiated a
8 course of conduct which was designed to and did: (i) conceal the fact that the Company was
9 allowing its directors and senior officers to divert hundreds of millions of dollars to Sigma Designs
10 insiders and directors and causing Sigma Designs to misrepresent its financial results; (ii) maintain
11 Defendants' executive and directorial positions at Sigma Designs and the profits, power and prestige
12 which Defendants enjoyed as a result of these positions; and (iii) deceive the investing public,
13 including shareholders of Sigma Designs, regarding Defendants' compensation practices and Sigma
14 Designs' financial performance.

15 33. The purpose and effect of Defendants' common course of conduct was, among other
16 things, to disguise Defendants' violations of law, breaches of fiduciary duty, abuse of control, gross
17 mismanagement, corporate waste and unjust enrichment, to conceal adverse information concerning
18 the Company's operation and financial condition and to artificially inflate the price of Sigma
19 Designs common stock so they could dispose of millions of dollars of their own Sigma Designs
20 stock, and enhance their executive and directorial positions and receive the substantial compensation
21 they obtained as a result thereof.

22 34. Defendants accomplished their common enterprise and/or common course of conduct
23 by causing the Company to purposefully and/or recklessly engage in the option backdating scheme
24 alleged herein and misrepresent Sigma Designs' financial results. Each of the Defendants was a
25 direct, necessary, and substantial participant in the common enterprise and/or common course of
26 conduct complained of herein.

27 35. Each of the Defendants aided and abetted and rendered substantial assistance in the
28 wrongs complained of herein. In taking such actions to substantially assist the commission of the

1 wrongdoing complained of herein, each Defendant acted with knowledge of the primary
2 wrongdoing, substantially assisted the accomplishment of that wrongdoing, and was aware of his or
3 her overall contribution to and furtherance of the wrongdoing.

4 BACKGROUND

5 36. Sigma Designs engages in the development, manufacture, and marketing of silicon-
6 based media processors primarily for consumer products. Its REAL magic video streaming
7 technology is used in various consumer applications providing integrated solutions for decoding of
8 H.264, MPEG-4, MPEG-2, MPEG-1, and Windows Media Video 9. The Company offers silicon-
9 based media processors for Internet protocol television set-top boxes, digital media receivers, high
10 definition DVD players, high definition television, and portable media players.

11 37. Throughout the relevant period, Defendants caused Sigma Designs to grant them
12 millions of stock options permitting them to buy Sigma Designs stock for pennies on the dollar
13 which they could in turn sell as the Company's stock price increased. A stock option gives the
14 holder the right to buy a stock at a certain price in the future. Typically, companies set that price at
15 the same time their directors approve an option grant, with an exercise price — also known as the
16 “strike price” — usually set at the closing price of the stock that day, the closing price of the night
17 before or by computing an average of the high and low prices on the day of the vote.

18 38. However, many of the millions of options granted to Sigma Designs' executives had a
19 hidden, valuable component: they were misdated, often making them even more significantly
20 valuable. The misdated stock option grants fell largely into three categories: (i) “look back” grants,
21 in which the date of the grant was picked retroactively (*e.g.*, a decision in February to pick a January
22 date); (ii) “wait and see” grants, in which a grant date was selected, but the decision was finalized —
23 and sometimes changed — at a later date (*e.g.*, a decision on January 1 to issue a grant on January 15,
24 but there is a period after January 15 in which the grantor waits to see if a more advantageous price
25 occurs and, if one does, uses that later date instead); and (iii) grants where there was a failure to
26 complete the option grant process by the date of the grant (*e.g.*, where there is a decision to issue a
27 grant as of a certain date, but after that date there are changes in the grantees or amounts to grantees,
28

1 and although the work is not complete on those grants as of the stated grant date, that date is
2 nonetheless used).

3 STOCK OPTION GRANTS

4 39. Certain of Sigma Designs' manipulative stock option grants are described below:

5 1997 Option Grants

6 40. Defendants dated Sigma Designs' 1997 option grants as of April 22, 1997 at \$2.31
7 per share -- the low of the month when the stock traded as high as \$3.50 per share. Defendants Tran,
8 Martinella and Perich received 800,000, 96,382 and 205,000 options, respectively, at this exercise
9 price.

10 1998 Option Grants

11 41. Defendants dated Sigma Designs' 1998 option grants as of March 17, 1998 at \$2.91
12 per share -- the low of the month when the stock traded between \$2.91 and \$3.31 per share.
13 Defendants Tran, Perich and Martinella received 200,000, 25,000 and 30,000 options, respectively,
14 at this exercise price.

15 1999 Option Grants

16 42. Defendants dated Sigma Designs' 1999 option grants as of November 1, 1999 at
17 \$5.75 per share -- the low of the month. The stock traded as high as \$8.56 per share in November
18 1999. Moreover, these stock grants, like many of Sigma Designs other stock grants, came
19 immediately before a large increase in the stock price. Sigma Designs' stock achieved its stock price
20 high for the month on November 12, only 8 trading days after the grants were made. Defendant
21 Martinella received 20,000 options at this price.

22 2000 Option Grants

23 43. Defendants dated Sigma Designs' 2000 option grants as of May 31, 2000 at \$3.50 per
24 share -- the low of the month. The stock traded as high as \$4.75 per share in May 2000. Moreover,
25 these stock grants, like many of Sigma Designs other stock grants, came immediately before a large
26 increase in the stock price. Sigma Designs' stock reached \$4.31 per share on June 5, 2000, only 2
27 trading days after the grants were made. Defendants Tran, Tsui, Perich, Martinella and Lowe
28

1 received 50,000, 15,000, 25,000, 25,000 and 80,000 options, respectively, at this \$3.50 exercise
2 price.

3 **2001 Option Grants**

4 44. Defendants dated all of Sigma Designs' 2001 option grants as of November 7, 2001 at
5 \$1.25 per share – near the low of the month. The stock traded as high as \$1.85 per share in
6 November 2001. Defendants Tran, Tsui, Perich, Martinella and Lowe received 100,000, 30,000,
7 30,000, 30,000 and 20,000 options, respectively, at this exercise price.

8 **2002 Option Grants**

9 45. Defendants dated Sigma Designs' 2002 option grants as of October 18, 2002 at \$1.69
10 per share – the low of the month. The stock traded as high as \$2.39 per share in October 2002.
11 Defendants Tran, Tsui, Perich, Martinella and Lowe received 120,000, 30,000, 30,000, 30,000 and
12 20,000 options, respectively, at this exercise price. Each of these grants was not reported in Form 4s
13 by these officers until weeks after the supposed grant date, despite requirements under §403 of the
14 Sarbanes-Oxley Act requiring that changes in ownership be reported within two days.

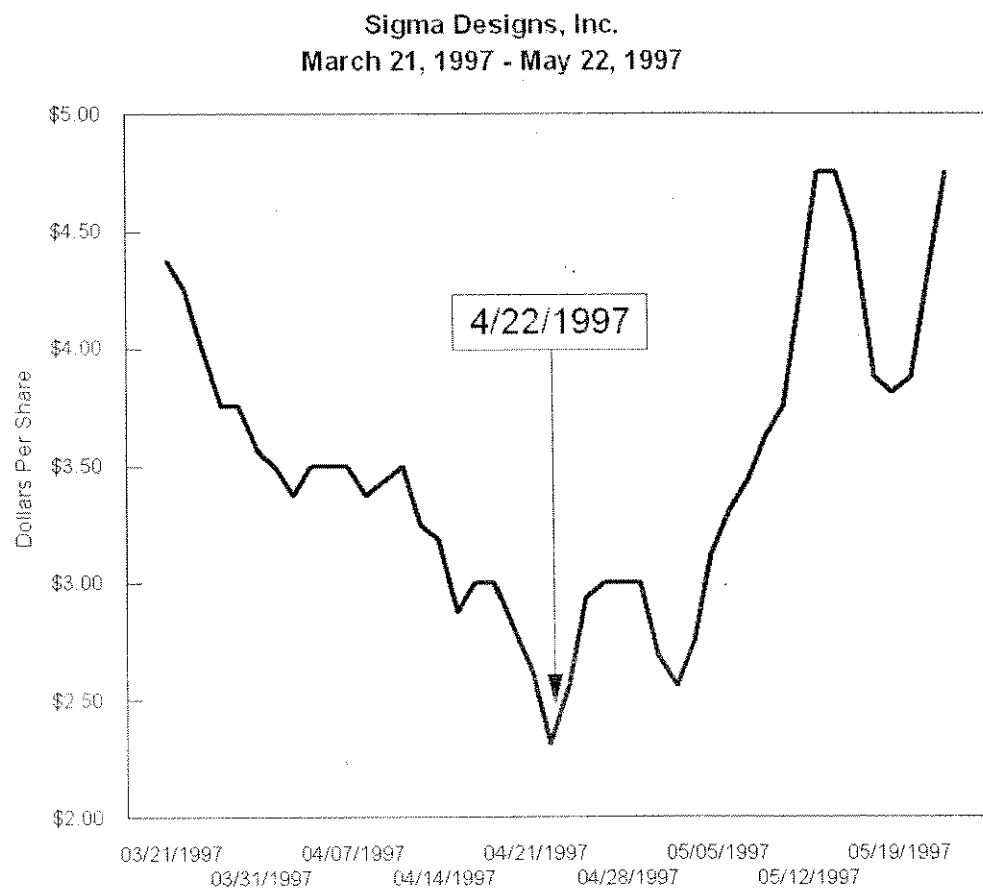
15 **2003 Option Grants**

16 46. Defendants dated Sigma Designs' 2003 option grants as of February 20, 2003 at
17 \$3.40 per share – the low of the year. The stock traded as high as \$4.00 per share in February 2003.
18 Defendants Tran, Tsui, Perich, Martinella and Lowe received 120,000, 25,000, 25,000, 25,000 and
19 25,000 options, respectively, at this exercise price. Each of these grants was not reported in Form 4s
20 by these officers until weeks after the supposed grant date, despite requirements under §403 of the
21 Sarbanes-Oxley Act requiring that changes in ownership be reported within two days.

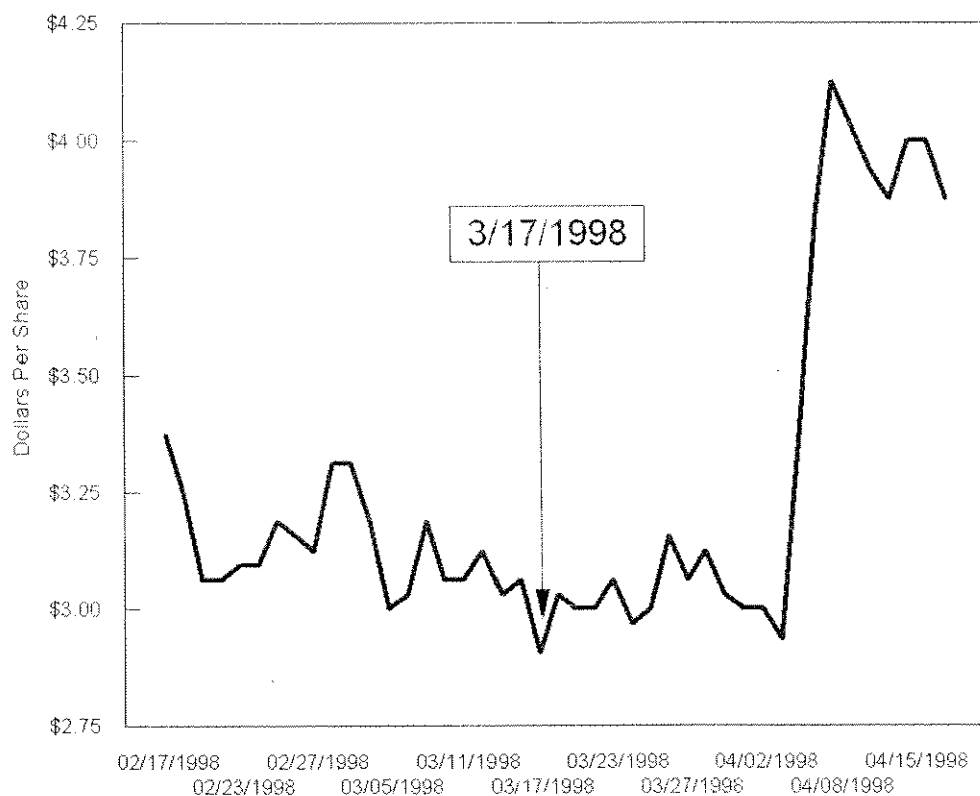
22 **2004 Option Grants**

23 47. Defendants dated Sigma Designs' 2004 option grants as of August 9, 2004 at \$5.43
24 per share – the low of the month. The stock traded as high as \$7.45 per share in August 2004.
25 Defendants Tran, Tsui, Perich, Martinella and Lowe received 150,000, 25,000, 25,000, 30,000 and
26 25,000 options, respectively, at this exercise price. Each of these grants was not reported in Form 4s
27 by these officers until weeks after the supposed grant date, despite requirements under §403 of the
28 Sarbanes-Oxley Act requiring that changes in ownership be reported within two days.

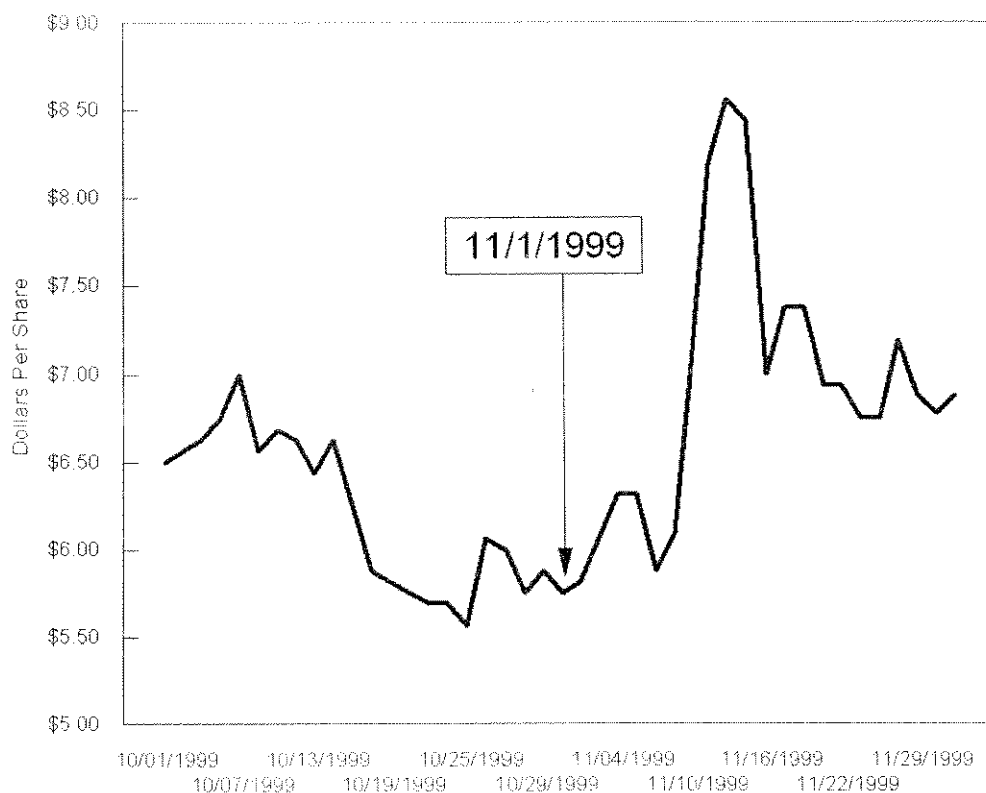
48. Below are several of Sigma Designs' grants which occurred right before significant stock price increases:



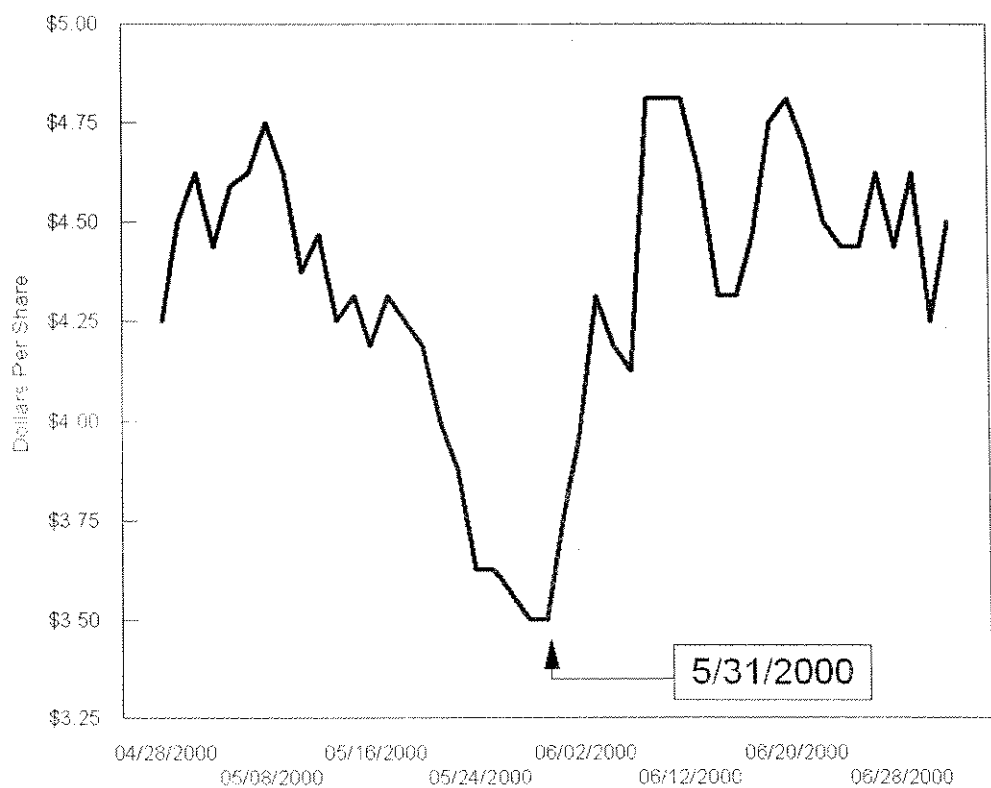
Sigma Designs, Inc.
February 17, 1998 - April 17, 1998



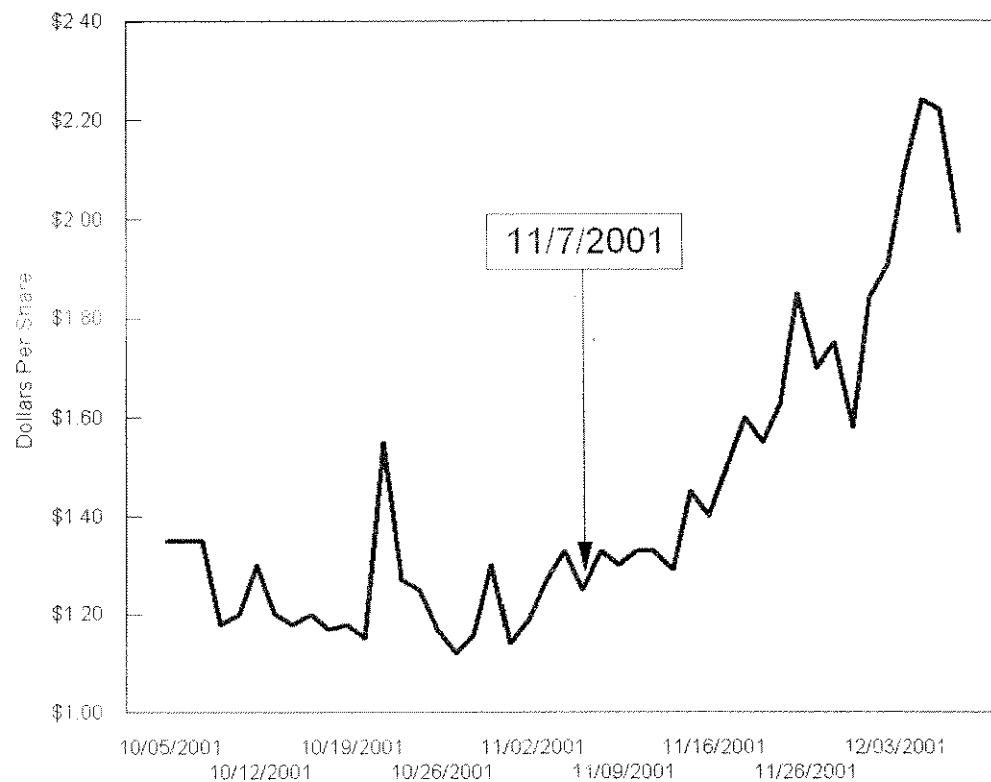
Sigma Designs, Inc.
October 1, 1999 - December 1, 1999



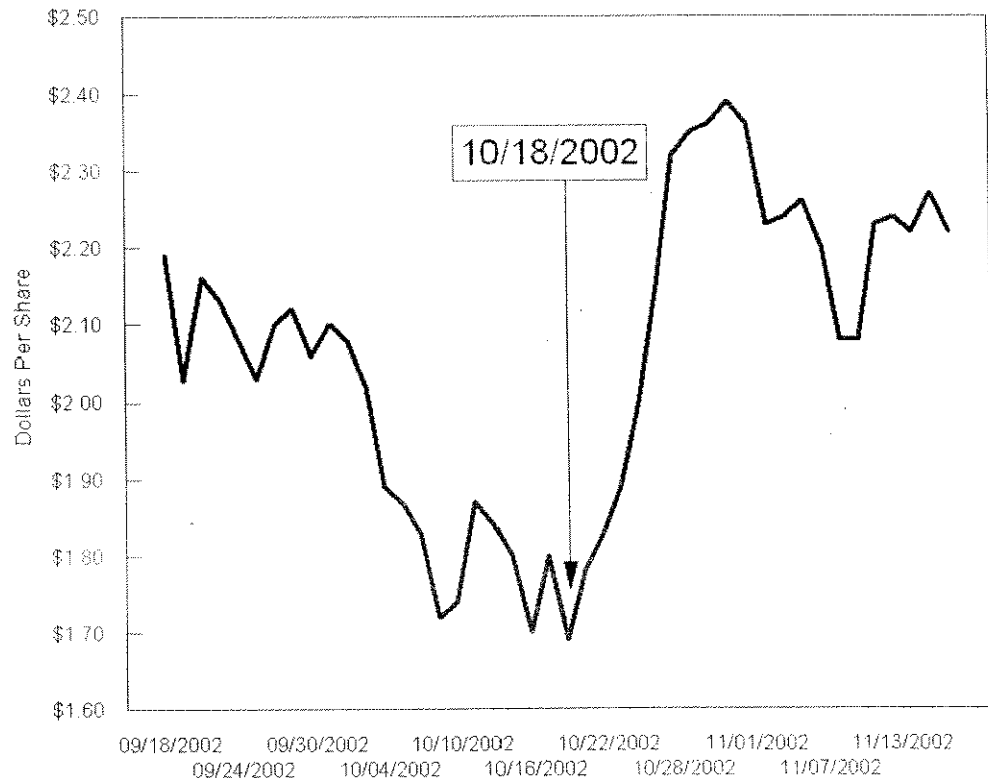
Sigma Designs, Inc.
April 28, 2000 - July 3, 2000



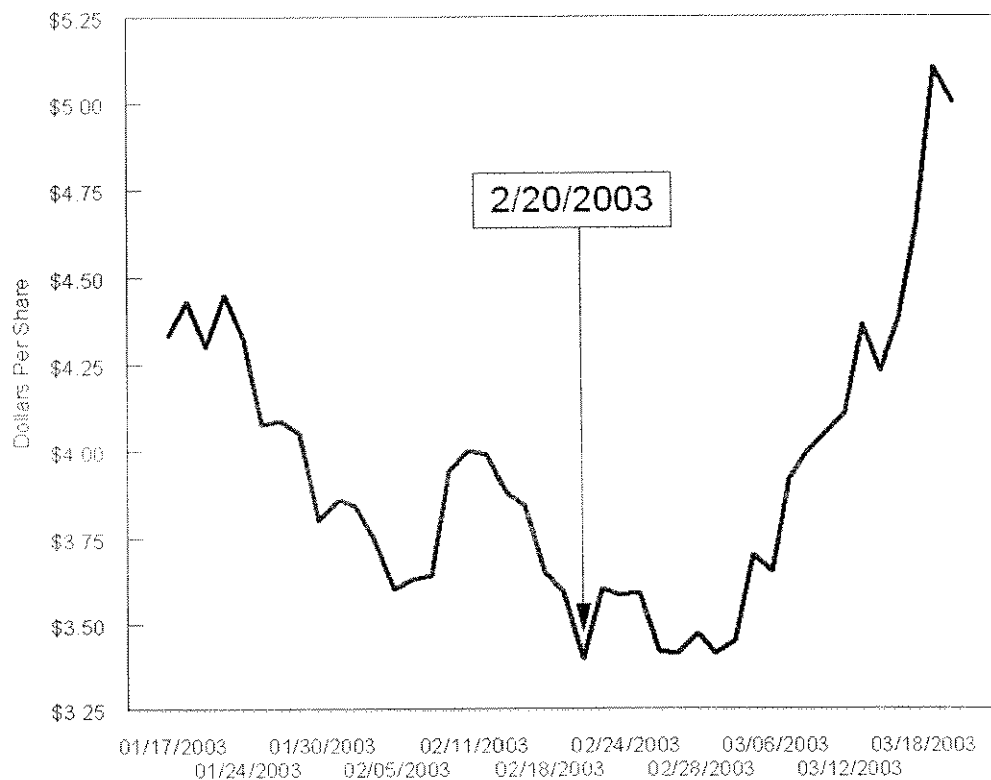
Sigma Designs, Inc.
October 5, 2001 - December 7, 2001



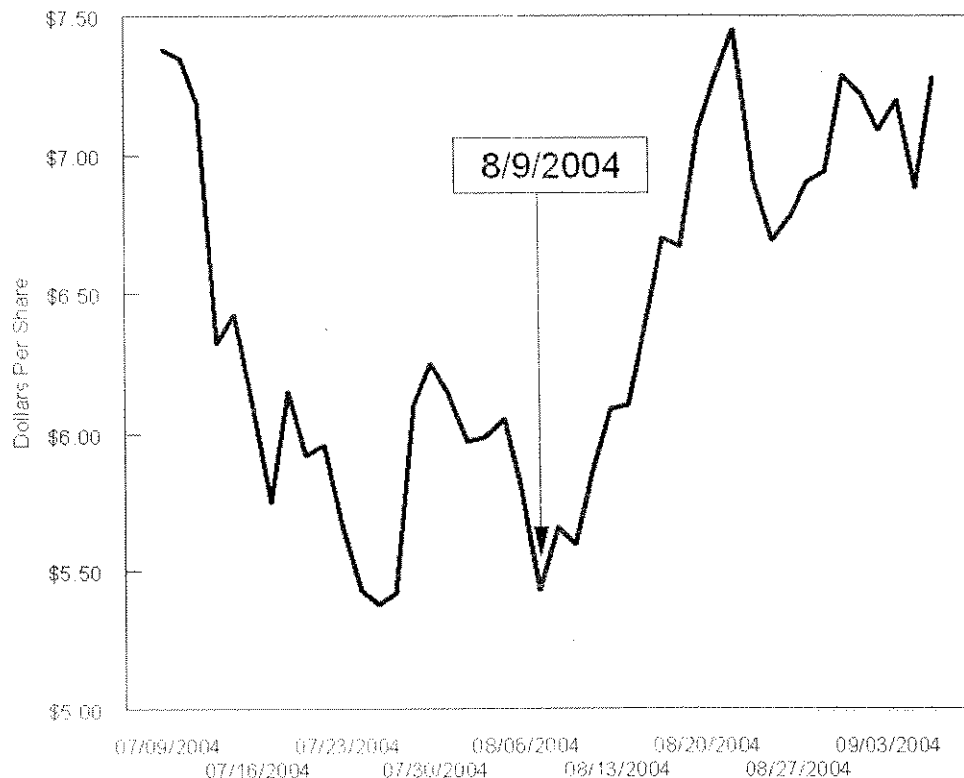
Sigma Designs, Inc.
September 18, 2002 - November 18, 2002



Sigma Designs, Inc.
January 17, 2003 - March 20, 2003



Sigma Designs, Inc.
July 9, 2004 - September 9, 2004



49. Complicating matters and magnifying the harm to Sigma Designs, during the relevant period, Sigma Designs' internal controls and accounting controls with respect to option grants and exercises, and its financial reporting, were grossly inadequate. The weaknesses allowed dates of both grants and exercises to be manipulated and the Company's executive compensation expenses to be materially understated. They also allowed grant dates to be changed to provide executives with more favorably priced options, in effect augmenting their compensation, with no benefit running to the Company.

50. Specifically, in many instances the reported dates Sigma Designs stock options were granted differed from the dates on which the options appear to have been actually granted. The practice applied to the overwhelming majority of stock option grants made during the relevant period, which allowed executives and employees to make more money on their options because it set a lower "strike price" at which the options could be exercised, allowing employees to take larger profits when the stock price later rose. *In almost every case of misdating, the price of Sigma*

1 *Designs shares on the reported option-grant date was lower than the share price on the actual day*
2 *the options were issued.*

3 51. Through their fiduciary duties of care, good faith and loyalty, Defendants owed to
4 Sigma Designs a duty to ensure that the Company's financial reporting fairly presented, in all
5 material respects, the operations and financial condition of the Company. In order to adequately
6 carry out these duties, it is necessary for the Defendants to know and understand the material non-
7 public information to be either disclosed or omitted from the Company's public statements. This
8 material non-public information included the problems Sigma Designs faced because of its deficient
9 internal controls. Furthermore, Defendants who were members of the Audit Committee during the
10 relevant period had a special duty to know and understand this material information as set out in the
11 Audit Committee's charter, which provides that the Audit Committee is responsible for reviewing, in
12 conjunction with management, the Company's policies generally with respect to the Company's
13 earnings press releases and with respect to financial information and earnings guidance provided to
14 analysts and rating agencies. Moreover, Defendants who were directors of Sigma Designs had
15 ample opportunity to discuss this material information with fellow directors at any of the scores of
16 Board meetings that occurred during the relevant period as well as at committee meetings of the
17 Board. Despite these duties, Defendants negligently, recklessly, and/or intentionally caused or
18 allowed, by their actions or inactions, the misleading statements to be disseminated by Sigma
19 Designs to the investing public and the Company's shareholders during the relevant period.

20 52. Specifically, since 1997, Defendants have caused Sigma Designs to report false and
21 misleading fiscal and quarterly financial results which materially understated its compensation
22 expenses and thus overstated its earnings (or understated its losses) as follows:

FISCAL YEAR	REPORTED OPERATING EARNINGS (LOSS) (IN MILLIONS)	REPORTED DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS
1997	\$1.53	\$0.14
1998	\$(5.08)	\$(0.51)
1999	\$(0.15)	\$(0.21)
2000	\$2.35	\$0.13
2001	\$(6.87)	\$(0.42)
2002	\$(10.39)	\$(0.64)
2003	\$(6.06)	\$(0.37)
2004	\$1.54	\$0.07
2005	\$1.84	\$0.08
2006	\$1.88	\$0.08

53. Moreover, throughout the relevant period certain of the Defendants and former officers exercised many of these stock options contributing to their ability to sell over \$15.4 million worth of Sigma Designs stock they obtained often by cashing in under-priced stock options:

DEFENDANT	DATES OF SALES	SHARES SOLD	PROCEEDS RECEIVED
PERICH	06/13/96-12/21/05	230,000	\$2,609,725
LOWE	09/20/05	6,000	\$64,893
MARTINELLA	01/12/00-03/31/06	88,666	\$947,641
ALMON	09/01/04-11/28/05	83,000	\$1,096,550
TRAN	09/17/96-08/18/06	582,797	\$6,144,427
NGUYEN	03/11/96-09/19/05	560,625	\$4,423,231
TSAI	09/22/05-09/23/05	15,000	\$157,700
TOTAL		1,566,088	\$15,444,167

54. On July 26, 2006, Sigma Designs announced that the SEC had begun investigating it due to its stock-option granting practices:

Sigma further announced that it has received a letter of informal inquiry from the Securities and Exchange Commission (SEC) requesting certain documents relating to the Company's stock option grants and practices. The letter from the SEC states that this informal inquiry should not be construed as an indication by the SEC or its staff that any violation of law has occurred, or as an adverse reflection upon any person, entity or security. Sigma intends to cooperate fully with the SEC request.

Sigma also announced that the Audit Committee of its Board of Directors previously commenced an internal review, assisted by outside legal counsel, relating to past stock option grants, the timing of such grants and related accounting matters.

55. In effect, during the relevant period, the Defendants caused Sigma Designs' shares to trade at artificially inflated levels by issuing a series of materially false and misleading statements

1 regarding the Company's financial statements, business and prospects. Specifically, Defendants
2 caused or allowed Sigma Designs to issue statements that failed to disclose or misstated the
3 following: (i) that the Company had problems with its internal controls that prevented it from
4 issuing accurate financial reports and projections; (ii) that because of improperly recorded stock-
5 based compensation expenses the Company's financial results violated GAAP; and (iii) that the
6 Company's public disclosures presented an inflated view of Sigma Designs' earnings and earnings
7 per share.

8 **DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

9 56. Plaintiff brings this action derivatively in the right and for the benefit of Sigma
10 Designs to redress injuries suffered and to be suffered by Sigma Designs as a direct result of
11 Defendants' violations of state and federal law, breaches of fiduciary duty, abuse of control,
12 constructive fraud, gross mismanagement, corporate waste and unjust enrichment, as well as the
13 aiding and abetting thereof, by the Defendants. This is not a collusive action to confer jurisdiction
14 on this Court which it would not otherwise have.

15 57. Plaintiff will adequately and fairly represent the interests of Sigma Designs and its
16 shareholders in enforcing and prosecuting its rights.

17 58. Plaintiff is an owner of Sigma Designs stock and was an owner of Sigma Designs
18 stock during times relevant to Defendants' illegal and wrongful course of conduct alleged herein.

19 59. Based upon the facts set forth throughout this Complaint, applicable law and the
20 longstanding rule that equity does not compel a useless and futile act, a pre-filing demand upon the
21 Sigma Designs Board of Directors to institute this action against the officers and members of the
22 Sigma Designs Board of Directors is excused as futile. A pre-filing demand would be a useless and
23 futile act because:

24 (a) The members of Sigma Designs' Board have demonstrated their
25 unwillingness and/or inability to act in compliance with their fiduciary obligations and/or to sue
26 themselves and/or their fellow directors and allies in the top ranks of the corporation for the
27 violations of law complained of herein. These are people they have developed professional
28 relationships with, who are their friends and with whom they have entangling financial alliances,

1 interests and dependencies, and therefore, they are not able to and will not vigorously prosecute any
2 such action.

3 (b) The Sigma Designs Board of Directors and senior management participated
4 in, approved and/or permitted the wrongs alleged herein to have occurred and participated in efforts
5 to conceal or disguise those wrongs from Sigma Designs' stockholders or recklessly and/or
6 negligently disregarded the wrongs complained of herein, and are therefore not disinterested parties.
7 As a result of their access to and review of internal corporate documents, or conversations and
8 connections with other corporate officers, employees, and directors and attendance at management
9 and/or Board meetings, each of the Defendants knew the adverse non-public information regarding
10 the improper stock option grants and financial reporting. Pursuant to their specific duties as Board
11 members, the Director Defendants are charged with the management of the Company and to conduct
12 its business affairs. Defendants breached the fiduciary duties that they owed to Sigma Designs and
13 its shareholders in that they failed to prevent and correct the improper stock option granting and
14 financial reporting. Certain directors are also dominated and controlled by other directors and
15 cannot act independently of them. Thus, the Sigma Designs Board cannot exercise independent
16 objective judgment in deciding whether to bring this action or whether to vigorously prosecute this
17 action because each of its members participated personally in the wrongdoing or are dependent upon
18 other Defendants who did.

19 (c) The acts complained of constitute violations of the fiduciary duties owed by
20 Sigma Designs' officers and directors and these acts are incapable of ratification.

21 (d) The members of Sigma Designs' Board have benefited, and will continue to
22 benefit, from the wrongdoing herein alleged and have engaged in such conduct to preserve their
23 positions of control and the perquisites derived thereof, and are incapable of exercising independent
24 objective judgment in deciding whether to bring this action.

25 (e) Any suit by the current directors of Sigma Designs to remedy these wrongs
26 would likely further expose the liability of Defendants under the federal securities laws, which could
27 result in additional civil and/or criminal actions being filed against one or more of the Defendants,
28

1 thus, they are hopelessly conflicted in making any supposedly independent determination whether to
2 sue themselves.

3 (f) Sigma Designs has been and will continue to be exposed to significant losses
4 due to the wrongdoing complained of herein, yet the current Board has not filed any lawsuits against
5 itself or others who were responsible for that wrongful conduct to attempt to recover for Sigma
6 Designs any part of the damages Sigma Designs suffered and will suffer thereby.

7 (g) In order to properly prosecute this lawsuit, it would be necessary for the
8 directors to sue themselves and the other Defendants, requiring them to expose themselves and their
9 comrades to millions of dollars in potential civil liability and criminal sanctions, or IRS penalties.
10 This they will not do.

11 (h) Sigma Designs' current and past officers and directors are protected against
12 personal liability for their acts of mismanagement, waste and breach of fiduciary duty alleged in this
13 Complaint by directors' and officers' liability insurance which they caused the Company to purchase
14 for their protection with corporate funds, *i.e.*, monies belonging to the stockholders of Sigma
15 Designs. However, due to certain changes in the language of directors' and officers' liability
16 insurance policies in the past few years, the directors' and officers' liability insurance policies
17 covering the Defendants in this case contain provisions which eliminate coverage for any action
18 brought directly by Sigma Designs against these Defendants, known as, *inter alia*, the "insured
19 versus insured exclusion." As a result, if these directors were to sue themselves or certain of the
20 officers of Sigma Designs, there would be no directors' and officers' insurance protection and thus,
21 this is a further reason why they will not bring such a suit. On the other hand, if the suit is brought
22 derivatively, as this action is brought, such insurance coverage exists and will provide a basis for the
23 Company to effectuate a recovery.

24 (i) In order to bring this action for breaching their fiduciary duties, the members
25 of the Sigma Designs Board would have been required to sue themselves and/or their fellow
26 directors and allies in the top ranks of the Company, who are their personal friends and with whom
27 they have entangling financial alliances, interests and dependencies, which they would not do.

1 60. Plaintiff has not made any demand on shareholders of Sigma Designs to institute this
2 action since such demand would be a futile and useless act for the following reasons:

3 (a) Sigma Designs is a publicly traded company with approximately 22.8 million
4 shares outstanding, and thousands of shareholders;

5 (b) Making demand on such a number of shareholders would be impossible for
6 plaintiff who has no way of finding out the names, addresses or phone numbers of shareholders; and

7 (c) Making demand on all shareholders would force plaintiff to incur huge
8 expenses, assuming all shareholders could be individually identified.

9 **THE STOCK OPTION BACKDATING SCHEME AND ITS IMPACT**
10 **ON SIGMA DESIGNS' FINANCIAL STATEMENTS**

11 **The Fiscal 1997 Form 10-K**

12 On or about May 1, 1997, the Company filed its fiscal 1997 Form 10-K with the SEC. The
13 fiscal 1997 Form 10-K was simultaneously distributed to shareholders and the public. The fiscal
14 1997 Form 10-K included Sigma Designs' fiscal 1997 financial statements which were materially
15 false and misleading and presented in violation of GAAP, due to its improper accounting for the
16 backdated stock options. As a result, Sigma Designs' compensation expense was understated and its
17 net earnings were overstated.

18 **The Fiscal 1998 Form 10-K**

19 On or about May 1, 1998, the Company filed its fiscal 1998 Form 10-K with the SEC. The
20 fiscal 1998 Form 10-K was simultaneously distributed to shareholders and the public. The fiscal
21 1998 Form 10-K included Sigma Designs' fiscal 1998 financial statements which were materially
22 false and misleading and presented in violation of GAAP, due to its improper accounting for the
23 backdated stock options. As a result, Sigma Designs' compensation expense was understated and its
24 net earnings were overstated.

25 **The Fiscal 1999 Form 10-K405**

26 61. On or about May 3, 1999, the Company filed its fiscal 1999 Form 10-K405 with the
27 SEC. The fiscal 1999 Form 10-K405 was simultaneously distributed to shareholders and the public.
28 The fiscal 1999 Form 10-K405 included Sigma Designs' fiscal 1999 financial statements which were

1 materially false and misleading and presented in violation of GAAP, due to its improper accounting
2 for the backdated stock options. As a result, Sigma Designs' compensation expense was understated
3 and its net earnings were overstated.

4 **The Fiscal 2000 Form 10-K**

5 62. On or about April 28, 2001, the Company filed its fiscal 2000 Form 10-K with the
6 SEC. The fiscal 2000 Form 10-K was simultaneously distributed to shareholders and the public.
7 The fiscal 2000 Form 10-K included Sigma Designs' fiscal 2000 financial statements which were
8 materially false and misleading and presented in violation of GAAP, due to its improper accounting
9 for the backdated stock options. As a result, Sigma Designs' compensation expense was understated
10 and its net earnings were overstated.

11 **The Fiscal 2001 Form 10-K**

12 63. On or about May 4, 2001, the Company filed its fiscal 2001 Form 10-K with the SEC.
13 The fiscal 2001 Form 10-K was simultaneously distributed to shareholders and the public. The
14 fiscal 2001 Form 10-K included Sigma Designs' fiscal 2001 financial statements which were
15 materially false and misleading and presented in violation of GAAP, due to its improper accounting
16 for the backdated stock options. As a result, Sigma Designs' compensation expense was understated
17 and its net earnings were overstated.

18 **The Fiscal 2002 Form 10-K**

19 64. On or about May 2, 2002, the Company filed its fiscal 2002 Form 10-K with the SEC.
20 The fiscal 2002 Form 10-K was simultaneously distributed to shareholders and the public. The
21 fiscal 2002 Form 10-K included Sigma Designs' fiscal 2002 financial statements which were
22 materially false and misleading and presented in violation of GAAP, due to improper accounting for
23 the backdated stock options. As a result, Sigma Designs' compensation expense was understated
24 and its net earnings were overstated.

25 **The Fiscal 2003 Form 10-K**

26 65. On or about April 28, 2003, the Company filed its fiscal 2003 Form 10-K with the
27 SEC. The fiscal 2003 Form 10-K was simultaneously distributed to shareholders and the public.
28 The fiscal 2003 Form 10-K included Sigma Designs' fiscal 2003 financial statements which were

1 materially false and misleading and presented in violation of GAAP, due to improper accounting for
2 the backdated stock options. As a result, Sigma Designs' compensation expense was understated
3 and its net earnings were overstated.

4 **The Fiscal 2004 Form 10-K**

5 66. On or about April 15, 2004, the Company filed its fiscal 2004 Form 10-K with the
6 SEC. The fiscal 2004 Form 10-K was simultaneously distributed to shareholders and the public.
7 The fiscal 2004 Form 10-K included Sigma Designs' fiscal 2004 financial statements which were
8 materially false and misleading and presented in violation of GAAP, due to improper accounting for
9 the backdated stock options. As a result, Sigma Designs' compensation expense was understated
10 and its net earnings were overstated.

11 **The Fiscal 2005 Form 10-K**

12 67. On or about April 14, 2005, the Company filed its fiscal 2005 Form 10-K with the
13 SEC. The fiscal 2005 Form 10-K was simultaneously distributed to shareholders and the public.
14 The fiscal 2005 Form 10-K included Sigma Designs' fiscal 2005 financial statements which were
15 materially false and misleading and presented in violation of GAAP, due to improper accounting for
16 the backdated stock options. As a result, Sigma Designs' compensation expense was understated
17 and its net earnings were overstated.

18 **The Fiscal 2006 Form 10-K**

19 68. On or about May 8, 2006, the Company filed its fiscal 2006 Form 10-K with the SEC.
20 The fiscal 2006 Form 10-K was simultaneously distributed to shareholders and the public. The
21 fiscal 2006 Form 10-K included Sigma Designs' fiscal 2006 financial statements which were
22 materially false and misleading and presented in violation of GAAP, due to improper accounting for
23 the backdated stock options. As a result, Sigma Designs' compensation expense was understated
24 and its net earnings were overstated.

25 **DEFENDANTS' SCHEME BEGINS TO UNRAVEL**

26 69. The 1997-2005 Proxy Statements concealed Defendants' option backdating scheme.
27 Thus, the Company's shareholders remained unaware of Defendants' wrongdoing when voting on
28 proxy proposals between 1997 and 2005. In fact, it was not until the Company's announcement in

1 July 2006 disclosing its ongoing internal probe and the SEC investigation that shareholders learned
2 that the Proxy Statements which they had relied upon for years were false and misleading.
3 Defendants have been unjustly enriched at the expense of Sigma Designs, which has received and
4 will receive less money from the Defendants when they exercise their options at prices substantially
5 lower than they would have if the options had not been backdated.

6 70. Each dollar diverted to Defendants via the option backdating scheme has come at the
7 expense of the Company. For example, if Tran's 150,000 options granted in August 2004 had not
8 been manipulated, but rather had a strike price of \$7 per share, which was the trading price only days
9 after the options grant date, instead of the \$5.43 per share strike price, which was the trading low for
10 the month, when Tran exercised those options the Company would receive \$1.05 million instead of
11 \$814,500 – *a cost to the Company of \$235,000 for this single instance of option backdating.*

12 THE ADVERSE IMPACT OF DEFENDANTS' MISCONDUCT

13 71. Unlike most companies which avoid such option backdating abuse by issuing stock
14 option grants at the same time each year, which eliminates the potential for backdating, Defendants
15 ensured that executives would not have any such restrictions. Given the many times Sigma Designs'
16 grants were the low of the month in which options were granted, the date of their stock option grants
17 was clearly more than merely coincidental.

18 72. As a result of the backdating of options, Defendants have been unjustly enriched at
19 the expense of Sigma Designs, which has received and will receive less money from Defendants
20 when they exercise their options at prices substantially lower than they would have if the options had
21 not been backdated.

22 TOLLING OF THE STATUTE OF LIMITATIONS

23 73. The Counts alleged herein are timely. As an initial matter, Defendants wrongfully
24 concealed their manipulation of the stock option plans, through strategic timing and fraudulent
25 backdating, by issuing false and misleading Proxy Statements, by falsely reassuring Sigma Designs'
26 public investors that Sigma Designs' option grants were being administered by a committee of
27 independent directors, and by failing to disclose that backdated options were, in fact, actually issued
28 on dates other than those disclosed, and that strategically timed option grants were issued based on

1 the manipulation of insider information that ensured that the true fair market value of the Company's
 2 stock was, in fact, higher than the publicly traded price on the date of the option grant.

3 74. Sigma Designs' public investors had no reason to know of the Defendants' breaches
 4 of their fiduciary duties until July 2006, when the Company announced the SEC and internal
 5 investigations.

6 75. Finally, as fiduciaries of Sigma Designs and its public shareholders, the Defendants
 7 cannot rely on any limitations defense where they withheld from Sigma Designs' public shareholders
 8 the facts that give rise to the claims asserted herein, *i.e.*, that the Sigma Designs Board had abdicated
 9 its fiduciary responsibilities to oversee the Company's executive compensation practices, and that
 10 the option grant dates had been manipulated to maximize the profit for the grant recipients and,
 11 accordingly, to maximize the costs for the Company.

12 **COUNT I**

13 **Violations of §14(a) of the Exchange Act Against** 14 **All Defendants**

15 76. Plaintiff incorporates by reference and realleges each and every allegation set forth
 16 above, as though fully set forth herein.

17 77. Rule 14a-9, promulgated pursuant to §14(a) of the Exchange Act, provides that no
 18 proxy statement shall contain "any statement which, at the time and in the light of the circumstances
 19 under which it is made, is false or misleading with respect to any material fact, or which omits to
 20 state any material fact necessary in order to make the statements therein not false or misleading." 17
 21 C.F.R. §240.14a-9.

22 78. The 1997-2005 Proxy Statements violated §14(a) and Rule 14a-9 because they
 23 omitted material facts, including the fact that certain of the Defendants were causing Sigma Designs
 24 to engage in an option backdating scheme, a fact which Defendants were aware of and participated
 25 in from at least 1997.

26 79. In the exercise of reasonable care, Defendants should have known that the Proxy
 27 Statements were materially false and misleading.
 28

	COUNT II
	Accounting

Accounting

83. At all relevant times, Defendants, as directors and/or officers of Sigma Designs, owed the Company and its shareholders fiduciary duties of good faith, care, candor and loyalty.

85. The Defendants possess complete and unfettered control over the improperly issued stock option grants and the books and records of the Company concerning the details of such improperly backdated stock option grants to certain of the Defendants.

87. Plaintiff demands an accounting be made of all stock option grants made to any of the Defendants, including, without limitation, the dates of the grants, the amounts of the grants, the value of the grants, the recipients of the grants, the exercise date of stock options granted to any of

1 the Defendants, as well as the disposition of any proceeds received by any of the Defendants via sale
2 or other exercise of backdated stock option grants received by those Defendants.

3 **COUNT III**

4 **Breach of Fiduciary Duty and/or Aiding and Abetting** 5 **Against All Defendants**

6 88. Plaintiff incorporates by reference and realleges each and every allegation set forth
7 above, as though fully set forth herein.

8 89. Each of the Defendants agreed to and did participate with Tran and Tsui and the other
9 Defendants and/or aided and abetted one another in a deliberate course of action designed to divert
10 corporate assets in breach of fiduciary duties the Defendants owed to the Company.

11 90. The Defendants have violated fiduciary duties of care, loyalty, candor and
12 independence owed to Sigma Designs and its public shareholders, have engaged in unlawful self-
13 dealing and have acted to put their personal interests and/or their colleagues' interests ahead of the
14 interests of Sigma Designs and its shareholders.

15 91. As demonstrated by the allegations above, Defendants failed to exercise the care
16 required, and breached their duties of loyalty, good faith, candor and independence owed to Sigma
17 Designs and its public shareholders, and they failed to disclose material information and/or made
18 material misrepresentations to shareholders regarding Defendants' option backdating scheme.

19 92. By reason of the foregoing acts, practices and course of conduct, the Defendants have
20 failed to exercise ordinary care and diligence in the exercise of their fiduciary obligations toward
21 Sigma Designs and its public shareholders.

22 93. As a proximate result of Defendants' conduct, in concert with Tran and Tsui, Sigma
23 Designs has been injured and is entitled to damages.

24 **COUNT IV**

25 **Abuse of Control Against All Defendants**

26 94. Plaintiff incorporates by reference and realleges each and every allegation set forth
27 above, as though fully set forth herein.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

7
8

9

10

11

12
13

14
15
16

17
18
19
20
21
22

23
24
25
26
27

28

COUNT VI**Constructive Fraud Against All Defendants**

103. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

104. As corporate fiduciaries, Defendants owed to Sigma Designs and its shareholders a duty of candor and full accurate disclosure regarding the true state of Sigma Designs' business and assets and their conduct with regard thereto.

105. As a result of the conduct complained of, Defendants made, or aided and abetted the making of, numerous misrepresentations to and/or concealed material facts from Sigma Designs' shareholders despite their duties to, *inter alia*, disclose the true facts regarding their stewardship of Sigma Designs. Thus they have committed constructive fraud and violated their duty of candor.

106. By reason of the foregoing, Sigma Designs has been damaged.

COUNT VII**Corporate Waste Against All Defendants**

107. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

108. By failing to properly consider the interests of the Company and its public shareholders, by failing to conduct proper supervision, and by giving away millions of dollars to Defendants via the option backdating scheme, Defendants have caused Sigma Designs to waste valuable corporate assets.

109. As a result of Defendants' corporate waste, they are liable to the Company.

COUNT VIII**Unjust Enrichment Against All Defendants**

110. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

111. As a result of the conduct described above, Defendants will be and have been unjustly enriched at the expense of Sigma Designs, in the form of unjustified salaries, benefits, bonuses, stock option grants and other emoluments of office.

1 112. All the payments and benefits provided to the Defendants were at the expense of
2 Sigma Designs. The Company received no benefit from these payments. Sigma Designs was
3 damaged by such payments.

4 113. Certain of the Defendants sold Sigma Designs stock for a profit during the period of
5 deception, misusing confidential non-public corporate information. These Defendants should be
6 required to disgorge the gains which they have and/or will otherwise unjustly obtain at the expense
7 of Sigma Designs. A constructive trust for the benefit of the Company should be imposed thereon.

8 **COUNT IX**

9 **Against the Officer Defendants for Rescission**

10 114. Plaintiff incorporates by reference and realleges each and every allegation contained
11 above as though fully set forth herein.

12 115. As a result of the acts alleged herein, the stock option contracts between the Officer
13 Defendants and Sigma Designs entered into during the relevant period were obtained through
14 Defendants' fraud, deceit, and abuse of control. Further, the backdated stock options were illegal
15 grants and thus invalid as they were not authorized in accordance with the terms of the publicly filed
16 contracts regarding the Officer Defendants' employment agreement and the Company's stock option
17 plan which was also approved by Sigma Designs shareholders and filed with the SEC.

18 116. All contracts which provide for stock option grants between the Officer Defendants
19 and Sigma Designs and were entered into during the relevant period should, therefore, be rescinded,
20 with all sums paid under such contracts returned to the Company, and all such executory contracts
21 cancelled and declared void.

22 **COUNT X**

23 **Against the Insider Selling Defendants for Violation of 24 California Corporations Code §25402**

25 117. Plaintiff incorporates by reference and realleges each and every allegation set forth
26 above, as though fully set forth herein.

27 118. At the time that the Insider Selling Defendants sold their Sigma Designs common
28 stock as set forth herein at ¶53, by reason of their high executive and/or directorial positions with

1 Sigma Designs, the Insider Selling Defendants had access to highly material information regarding
 2 the Company, including the information set forth herein regarding the true adverse facts of Sigma
 3 Designs' improper accounting.

4 119. At the time of such sales, that information was not generally available to the public or
 5 the securities markets. Had such information been generally available, it would have significantly
 6 reduced the market price of Sigma Designs shares at that time.

7 120. The Insider Selling Defendants, and each of them, had actual knowledge of material,
 8 adverse non-public information and thus sold their Sigma Designs common stock in California in
 9 violation of California Corporations Code §25402.

10 121. Pursuant to California Corporations Code §25502.5, the Insider Selling Defendants,
 11 and each of them, are liable to Sigma Designs for damages in an amount up to three times the
 12 difference between the price at which Sigma Designs common stock was sold by these defendants,
 13 and each of them, and the market value which that Sigma Designs common stock would have had at
 14 the time of the sale if the information known to these defendants, and each of them, had been
 15 publicly disseminated prior to that time and a reasonable time had elapsed for the market to absorb
 16 the information.

17 COUNT XI

18 **Against the Insider Selling Defendants for Breach of Fiduciary** 19 **Duties for Insider Selling and Misappropriation of Information**

20 122. Plaintiff incorporates by reference and realleges each and every allegation set forth
 21 above, as though fully set forth herein.

22 123. At the time of the stock sales set forth herein, the Insider Selling Defendants knew the
 23 information described above, and sold Sigma Designs common stock on the basis of such
 24 information.

25 124. The information described above was proprietary non-public information concerning
 26 the Company's financial condition and future business prospects. It was a proprietary asset
 27 belonging to the Company, which the Insider Selling Defendants used for their own benefit when
 28 they sold Sigma Designs common stock.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28

5
6
7

8

9

10
11
12

13
14
15
16

17
18
19
20
21

22
23
24

25
26
27

28

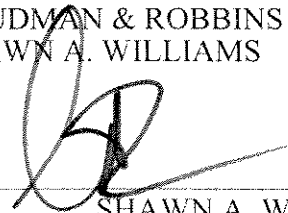
- 1 (iv) rotate independent auditing firms every five years;
2 (v) control and limit insider stock selling and the terms and timing of stock option
3 grants; and
4 (vi) reform executive compensation.
- 5 D. Ordering the imposition of a constructive trust over Defendants' stock options and
6 any proceeds derived therefrom;
- 7 E. Awarding punitive damages;
- 8 F. Awarding costs and disbursements of this action, including reasonable attorneys',
9 accountants', and experts' fees; and
- 10 G. Granting such other and further relief as this Court may deem just and proper.

11 **JURY DEMAND**

12 Plaintiff demands a trial by jury.

13 DATED: November 6, 2006

14 LERACH COUGHLIN STOIA GELLER
15 RUDMAN & ROBBINS LLP
16 SHAWN A. WILLIAMS



17 SHAWN A. WILLIAMS

18 100 Pine Street, Suite 2600
19 San Francisco, CA 94111
20 Telephone: 415/288-4545
21 415/288-4534 (fax)

22 LERACH COUGHLIN STOIA GELLER
23 RUDMAN & ROBBINS LLP
24 WILLIAM S. LERACH
25 DARREN J. ROBBINS
26 TRAVIS E. DOWNS III
27 655 West Broadway, Suite 1900
28 San Diego, CA 92101-3301
Telephone: 619/231-1058
619/231-7423 (fax)

Attorneys for Plaintiff

26 S:\CptDraft\Derivative\Cpt Sigma Designs Derv.doc

CERTIFICATION OF INTERESTED ENTITIES OR PERSONS

Pursuant to Civil L.R. 3-16, the undersigned certifies that as of this date, other than the named parties, there is no such interest to report.



ATTORNEY OF RECORD FOR PLAINTIFF
JOHN J. RANIERI

SIGMA DESIGNS, INC. VERIFICATION

I, John J. Ranieri, hereby verify, under penalty of perjury, that I am familiar with the allegations in the Complaint, and that I have authorized the filing of the Complaint, and that the foregoing is true and correct to the best of my knowledge, information and belief.

DATE:

10/31/06

SIGNATURE

A handwritten signature in black ink, appearing to read "John J. Ranieri", written over a horizontal line.